

SBO-Office-of-Internal-Audit

From: SBO-Office-of-Internal-Audit
Sent: Monday, April 23, 2012 11:45 AM
To: Andorfer, Corina (MSHDA)
Cc: Streb, Sandy (DTMB)
Subject: Final Distribution Notification - Family Housing Programs, MSHDA (641-0205-07)

Hi Corina,

OIAS staff has reviewed your revised plan to address the recommendations in the OAG's Performance Audit of the Family Housing Programs, MSHDA (641-0205-07) and has determined that no follow-up actions are necessary.

At this time, in accordance with Part VII, Chapter 4, Section 100 of the Financial Management Guide, please submit the final summary table and plan to address the recommendations to SBO-Office-of-Internal-Audit@michigan.gov with electronic or hardcopy versions also submitted to:

Executive Office

Office of the Auditor General

Relevant House and Senate Appropriation Sub-committees

Relevant House and Senate Standing Committees

House and Senate Fiscal Agencies

Staff within the audited agency or department, as necessary.

If you have any questions concerning the distribution of your final plan, please contact Sherri Washabaugh 517-241-7553 or via email at washabaughs@michigan.gov.

**Performance Audit
Family Housing Programs
Report 641-0250-07
Summary of Agency Response to Recommendations
Audit Period: July 31, 2004 through March 31, 2008**

A. Audit findings in which the agency agrees and has complied

1. Allocation of Federal Low Income Housing Tax Credits (in part)
2. Criminal History Screening (in part)
3. Tenant Data for Housing Developments (with explanation)
4. Identification of Deceased Tenants at Federal Project-Based Housing Developments (in part)
5. Michigan Magnet Fund (MMF) (in part)
9. Controls Over Grant Activities (in part)

B. Audit findings in which the agency agrees and will comply

10. Procurement of an Integrated Accounting and Management Information System
(Phase I completed. Phase II anticipated completion date November 30, 2012.)

C. Audit findings in which the agency disagrees

1. Allocation of Federal Low Income Housing Tax Credits (in part)
2. Criminal History Screening (in part)
4. Identification of Deceased Tenants at Federal Project-Based Housing Developments (in part)
5. Michigan Magnet Fund (MMF) (in part)
6. Conflicts of Interest and Post-Employment Activities of Employees
7. Housing Development Fund (HDF) Repayable Grants to the Great Lakes Capitol Fund
8. Use of a Homeless Initiatives Grant to Procure a Personal Services Contract
9. Controls Over Grant Activities (in part)

Performance Audit 641-0205-07
Family Housing Programs
Summary of Agency Response to Recommendations
Audit Period: July 31, 2004 through March 31, 2008

FINDING 1: Allocation of Federal Low Income Housing Tax Credits (LIHTCs)

RECOMMENDATION

That MSHDA revise its process for allocating federal LIHTCs to give preference to projects serving the lowest income tenants and projects obligated to serving qualified tenants for the longest period of time.

RESPONSE

MSHDA agrees in part and states that it stopped using a lottery for the allocation of tax credits in 2008. MSHDA awards the 9% credits through a competitive scoring process. In that competitive scoring process, points are awarded for projects that target the lowest income levels and points are also awarded to projects that agree to keep the project affordable for a longer period of time. An applicant gets more points for deeper income targeting and a greater number of years of affordability. MSHDA, however, disagrees in part, in that at all times the lottery was fully consistent with federal and state statutory requirements related to the allocation of tax credits.

FINDING 2: Criminal History Screening

RECOMMENDATION

That MSHDA establish and exercise effective criminal history screening practices for housing assistance programs.

RESPONSE

MSHDA agrees in part and has implemented effective criminal screening practices that comply with federal program requirements regarding the same. MSHDA is committed to providing safe, decent and affordable housing to low- and moderate-income persons residing in Michigan, but MSHDA disagrees in part in that it's important to understand that federal law requires the owners (not MSHDA) of federally subsidized housing projects to conduct criminal background checks on applicants and to develop standards for eviction of tenants engaging in certain criminal activity--the primary responsibility for tenant screening, eligibility and selection rests with the owners of federally subsidized projects. It is also important to understand that MSHDA is required to provide service to low- and moderate-income persons who may also have criminal records. The law requires MSHDA to prevent current and ongoing criminal activity in a housing development to the best of MSHDA's ability, primarily through ensuring that screening procedures that landlords are required to utilize when admitting tenants to developments are completed, but it does not provide MSHDA with the power to exclude persons and families from residing in developments solely on the basis of prior criminal involvement, criminal record or criminal history. It is significant that the data cited in the OAG audit related to tenants with a criminal history represents a small percentage of the total population served by each program

reviewed, and depending on the program being analyzed, sometimes less than one percent of the statewide total of applicants who are screened annually by MSHDA.

MSHDA has implemented effective criminal screening practices that comply with or exceed federal program requirements, which MSHDA is required to follow. For some programs, MSHDA had procedures in place at the time of audit that met and continue to meet all applicable federal requirements. For other programs, federal standards related to criminal background screening changed during the audit period. For example, additional screening processes were implemented with regard to Section 8 voucher programs on June 1, 2008. Further changes to strengthen the screening process related to Section 8 voucher programs were implemented in 2009. Additionally, criminal screening training related to the Section 8 voucher program was provided to appropriate staff members and contracted Housing Agents in June 2008 and again in April and May 2009.

FINDING 3: Tenant Data for Housing Developments

RECOMMENDATION

That MSHDA maintain complete tenant data related to MSHDA-financed housing developments and tax credit-financed housing developments.

RESPONSE

MSHDA agrees in part and has implemented HUD's July 2008 changes to data requirements. MSHDA, however, points out that the audit period covers July 31, 2004 through March 31, 2008 and that federal requirements related to this data were established after the audit period, so any data MSHDA had compiled before or during the audit period was not required by law and was being collected solely on a voluntary basis for program implementation purposes.

FINDING 4: Identification of Deceased Tenants at Federal Project-Based Housing Developments

RECOMMENDATION

That MSHDA identify and update on a timely basis its records of deceased tenants at federal project-based housing developments and that MSHDA recover on a timely basis subsidy overpayments related to deceased persons.

RESPONSE

MSHDA agrees in part and states that owners are now required to run regular data checks through the HUD Enterprise Income Verification (EIV) systems which contains superior data regarding death records than the information utilized by the OAG with regard to this issue and that HUD now requires public housing agencies to run records checks of participant lists against EIV records. These checks should and do flag deceased tenant files. MSHDA disagrees because it has effective collection practices and procedures including requests for repayment and assignment of collection activities to the Michigan Department of Treasury.

FINDING 5: Michigan Magnet Fund (MMF)

RECOMMENDATION

That MSHDA's senior management keep the MSHDA Board Informed of matters related to MSHDA activities involving MMF.

RESPONSE

MSHDA agrees that reporting needs to be done and MSHDA has and continues to keep the MSHDA Board briefed on MMF activities. MSHDA, however, notes that it disagrees that the MSHDA board was unaware of MSHDA's MMF-related activities. MSHDA stated that the Authority board approved the 2009 MMF activities related to application and award of New Markets Tax Credits. The MSHDA board was briefed on a regular and ongoing basis about the MMF since its inception. The MMF was launched as a partnership between the Michigan Economic Development Corporation (MEDC), MSHDA, and the Great Lakes Capital Fund (GLCF). The MMF awarded more than \$49 million in federal New Markets Tax Credits to seven community development projects across Michigan as part of Gov. Granholm's Cool Cities Initiative. The projects helped created more than 2,500 jobs and spurred an estimated \$585 million in private investment. The MMF partnership, the Cool Cities initiative and the project investments were publicized statewide through press releases and news media reports that generated widespread positive news coverage. The initial press release was issued March 2, 2006 and is available on the MSHDA web site.

FINDING 6: Conflict of Interest and Post Employment Activities of MSHDA Employees

RECOMMENDATION

That MSHDA improve effectiveness in precluding conflicts of interest and restricting postemployment activities of its employees

RESPONSE

MSHDA disagrees with this finding. It is important to note that MSHDA's enabling act allows MSHDA to appoint staff as directors to nonprofit housing corporation (NPHC) boards in certain situations to ensure that the goals related to the creation of the NPHC are met. Staff members who are appointed do so in the course of their employment, and do not receive any additional compensation. The benefit to MSHDA is that the appointments to NPHC boards allow MSHDA to maintain an oversight role that ensures MSHDA funds are properly managed and disbursed. MSHDA, however, has reinforced its commitment to its Code of Ethics, which precludes conflicts of interest and restricts postemployment activities, by taking steps to ensure that MSHDA staff members are aware of the Code of Ethics and have access to it. Staff members have been provided copies of the Code of Ethics and have ready access to it electronically.

FINDING 7: Housing Development Fund repayable grants to the Great Lakes Capitol Fund (GLCF)

RECOMMENDATION

That MSHDA seek an Attorney General opinion regarding MSHDA's authority to use Housing Development Fund (HDF) repayable grants to create and support GLCF.

RESPONSE

MSHDA disagrees with this finding, noting that all of activities described in the audit have been completed and the grant funds subject to repayment have been repaid. MSHDA, however, recognizes the importance of compliance with the requirements of the HDF and recently adopted a revised HDF grant policy to clarify the use of Housing Development Funds and to require staff to make a determination in writing that proposals are within the Authority's rules and the section of the Authority's statute governing the Housing development Fund.

FINDING 8: Use of a Homeless Initiatives Grant to Procure a Personal Services Contract

RECOMMENDATION

That MSHDA's management comply with Michigan Civil Service Commission Rules and the MSHDA Board's authorization and refrain from using Homeless Initiatives Grants to procure personal services from an employee of a grantee unless specifically approved and authorized as required.

RESPONSE

MSHDA disagrees. MSHDA does not believe that this contractual arrangement/grant was intended or did constitute a violation of the Michigan Department of Civil Service rules and requirements. MSHDA believes that the arrangement with the Corporation for Supportive Housing (CSH) was not a personal services contract and therefore was not treated as such. MSHDA further stated that neither CS nor DMB approval was required in this instance.

FINDING 9: Controls over Grant Activities

RECOMMENDATION

That MSHDA establish and exercise effective controls over its grant activities.

RESPONSE

MSHDA agrees in part and increased internal control procedures have been implemented to ensure that proper authorization has been approved for grants to be approved by the Executive Director. MSHDA now requires that each grant file contain cover letter documentation as to funding source, authorization (e.g. board resolution), and signatories, etc. In addition, MSHDA is in the process of hiring an individual to perform on site internal compliance functions. MSHDA, however, disagrees that board approval had not been obtained for 11 grants OAG reviewed, in fact, MSHDA demonstrated that proper approval had been obtained for 9 of 11 grants.

FINDING 10: Procurement of an Integrated Accounting and Management Information System

RECOMMENDATION

That MSHDA establish an effective control environment over the procurement of its integrated accounting and management information system.

RESPONSE

MSHDA agrees. MSHDA stated that the contract in question was negotiated on MSHDA's behalf by DIT according to DIT's contracting processes and procedures. MSHDA stated that it had subsequently completed a DMB and DIT management RFP process for a new accounting system and that the new accounting system is in the process of being implemented. The new accounting system has the capability to track investments and to produce a complete chart of accounts.

